

AMENDED IN SENATE AUGUST 12, 2008

AMENDED IN SENATE AUGUST 4, 2008

AMENDED IN ASSEMBLY MAY 23, 2008

AMENDED IN ASSEMBLY MARCH 28, 2008

CALIFORNIA LEGISLATURE—2007–08 REGULAR SESSION

ASSEMBLY BILL

No. 2123

Introduced by Assembly Member Lieu
(Coauthors: Assembly Members Brownley, Coto, De Leon, Dymally,
Garcia, Garrick, Hancock, and Ma)
(Coauthors: Senators Cedillo and Padilla, Padilla, and Torlakson)

February 20, 2008

An act to add Division 22 (commencing with Section 70000) to the Financial Code, relating to financial literacy, ~~and making an appropriation therefor.~~

LEGISLATIVE COUNSEL'S DIGEST

AB 2123, as amended, Lieu. California Financial Literacy Initiative.

The California Constitution requires the Legislature to encourage the promotion of intellectual improvement. Existing law regulates financial institutions and their interactions with the public. Existing law recognizes the existence of specialized financial institutions that provide services, including, but not limited to, financial literacy training, to underserved communities.

This bill would establish the California Financial Literacy Initiative for the purpose of providing resources and instruction to Californians. The initiative would be administered by the Controller who would be authorized to provide, among other things, an online library of financial

literacy resources and materials to be made available for all Californians. The Controller would be authorized to convene a Financial Literacy Advisory Committee that may include representatives of the office of the Superintendent of Public Instruction, the office of the Treasurer, the Department of Corporations, the Department of Financial Institutions, the Department of Consumer Affairs, the Department of Finance, a representative from the financial services industry, a representative from the nonprofit sector associated with consumer advocacy, and others invited by the Controller. The bill would require the Controller, as resources are available, to establish and oversee the California Financial Services Corps, which would provide certain financial information to persons seeking personalized attention from individuals with financial literacy training. The bill would establish the California Financial Literacy Fund in the State Treasury and would authorize the Controller to deposit private donations into the fund from entities with no direct financial interest in any financial products. The bill would ~~continuously appropriate moneys in the fund to the Controller and would authorize~~ *require those moneys to be made available upon appropriation in the annual Budget Act and to be used for the purpose of establishing the services specified in the initiative.*

The bill would require the Controller, beginning in 2010, to report to specified committees of the Legislature annually on or before August 30 on the implementation of the initiative, as specified.

The bill would require specified state agencies to use existing resources for the initiative if those agencies elect to participate.

Vote: majority. Appropriation: ~~yes~~-no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. The Legislature finds and declares all of the
- 2 following:
- 3 (a) While California currently has no official statewide strategy
- 4 for improving Californians' financial literacy, the need for
- 5 coordinated state investment in financial literacy solutions is
- 6 increasingly evident. According to a national survey conducted in
- 7 the fall of 2007, nearly half of homeowners with adjustable rate
- 8 mortgages admitted that they did not know how their adjustable
- 9 rate mortgages will adjust or reset and nearly 75 percent did not
- 10 know how much their monthly mortgage payments will increase

1 when they do adjust or reset. Mortgage “resetting” of adjustable
2 rate mortgages is expected to peak in the fall of 2008.

3 (b) As the state’s chief financial officer responsible for auditing
4 state expenditures and balancing the state’s checkbook, as well as
5 being the chair or member of 72 state boards and commissions,
6 including two of the nation’s largest pension investment funds,
7 the Controller has the experience and duty to lead an initiative to
8 grow the state’s economy by bettering Californians’ financial
9 literacy.

10 (c) Many states have already recognized the importance of
11 financial literacy. Delaware, Maine, Pennsylvania, South Carolina,
12 Utah, West Virginia, and Wisconsin have all created financial
13 literacy programs to improve their citizens’ fiscal health.

14 (d) A recent survey by Dartmouth College and Harvard
15 University researchers found that only 35 percent of respondents
16 were able to correctly estimate how interest compounds over time,
17 more than half of respondents did not understand how minimum
18 payments are calculated and applied to a principal balance, and
19 almost none of the respondents understood the financial difference
20 between paying in monthly installments versus one lump sum at
21 the end of a certain time period.

22 (e) California high school seniors taking part in a national survey
23 of financial knowledge scored an average of 44 percent, four
24 percentage points lower than the national average.

25 (f) There were 164 million credit card holders in the United
26 States in 2003 and that number is projected to grow to 176 million
27 in 2008. These same Americans own approximately 1.5 billion
28 cards, which is an average of nearly nine credit cards issued per
29 credit card holder.

30 (g) The average American household consumer credit card debt
31 among low- and moderate-income households is eight thousand
32 six hundred fifty dollars (\$8,650).

33 (h) More than 40 percent of American families spend more than
34 they earn.

35 (i) Americans 25 to 34 years of age now have the second highest
36 rate of bankruptcy, just after those 35 to 44 years of age. The
37 bankruptcy rate among those individuals between 25 to 34 years
38 of age increased between 1991 and 2001, indicating that those
39 individuals were more likely to file bankruptcy as young adults
40 than were young baby boomers at the same age.

1 (j) The national annual savings rate has declined from 9 percent
2 in the 1980s to approximately -0.4 percent of after-tax household
3 income, a level not seen since the Great Depression.

4 (k) Less than 20 percent of United States workers are now in
5 employer pension plans and nearly 28 million United States
6 households, 37 percent of the total, do not have a retirement savings
7 account of any kind.

8 (l) Fifty-five percent of American workers do not know how
9 much they will need to save to make their retirement dreams a
10 reality.

11 (m) Financial literacy education is an essential ingredient for
12 creating an active citizenry able to understand how the state's
13 budget decisions will affect their personal lives.

14 (n) The growing negative economic effects of financial illiteracy
15 has spurred the nonprofit and private sector to dramatically increase
16 their investment in financial education and counseling, and to build
17 more partnerships within and between the two sectors. At this
18 crucial economic time it is imperative that the state consolidate its
19 financial literacy resources and seek ways to reinforce efforts in
20 the nonprofit and private sectors.

21 SEC. 2. Division 22 (commencing with Section 70000) is added
22 to the Financial Code, to read:

23
24 DIVISION 22. CALIFORNIA FINANCIAL LITERACY
25 INITIATIVE
26

27 70000. For purposes of this division, "initiative" means the
28 California Financial Literacy Initiative.

29 70001. (a) The California Financial Literacy Initiative is hereby
30 established as a program for improving financial literacy by
31 providing resources and instruction to Californians.

32 (b) The initiative shall be administered by the Controller who
33 shall establish an Office of Financial Literacy Advocate for these
34 purposes to be funded as resources are available.

35 70002. (a) The primary goal of the initiative shall be to utilize
36 high-quality instructional materials and training already established
37 by nonprofit and private sector entities to provide Californians
38 with the tools they will need to manage financial commitments
39 associated with borrowing, credit, and other important financial
40 decisions.

1 (b) To achieve this goal, the Controller may do the following:

2 (1) Organize and provide an online library and reference to
3 financial literacy resources.

4 (2) Coordinate and collaborate with financial institutions,
5 financial services providers, state and local governments, and
6 nonprofit organizations in collecting, creating, and distributing
7 financial literacy materials and developing innovative solutions
8 to improving financial literacy.

9 70003. (a) The Controller may convene a Financial Literacy
10 Advisory Committee to develop strategies to improve financial
11 literacy and review materials that can be provided on the Internet
12 and other accessible locations.

13 (b) The Financial Literacy Advisory Committee shall be chaired
14 by the Controller and may include representatives of the office of
15 the Superintendent of Public Instruction, the office of the Treasurer,
16 the California State Library, the Department of Corporations, the
17 Department of Financial Institutions, the Department of Consumer
18 Affairs, the Department of Finance, a representative from the
19 financial services industry, a representative from the nonprofit
20 sector associated with consumer advocacy, and others invited by
21 the Controller.

22 70004. Within existing resources, the Controller shall establish
23 and operate a financial literacy clearinghouse for information
24 through an Internet Web site to include information on these and
25 related subjects: financial credit scores, credit card applications,
26 bank account applications, simple and compound interest
27 calculations, retirement calculations, and mortgage and interest
28 rates. The Controller shall attempt to provide this service in English
29 and the five languages other than English most widely spoken by
30 Californians in their homes, according to the most recent United
31 States Census data.

32 70006. As resources are available, the Controller shall establish
33 and oversee the California Financial Services Corps. The purpose
34 of the California Financial Services Corps shall be to provide clear,
35 professional, and objective financial information to persons seeking
36 personalized attention from individuals with financial literacy
37 training or professional background.

38 70007. The California Financial Literacy Fund is hereby
39 established in the State Treasury ~~and, notwithstanding Section~~
40 ~~13340 of the Government Code, is continuously appropriated to~~

1 ~~the Controller.~~ The Controller may accept private donations from
2 entities with no direct financial interest in any financial products
3 and deposit those donations into the fund, ~~that may be used for the~~
4 ~~purpose of establishing~~ *which shall be made available upon*
5 *appropriation in the annual Budget Act to be used for* the services
6 described in this division.

7 70008. Beginning in 2010, the Controller shall provide to the
8 respective chairpersons of the Assembly Committee on Banking
9 and Finance and the Senate Committee on Banking, Finance and
10 Insurance an annual report on the California Financial Literacy
11 Initiative. This report shall include, but not be limited to, the
12 approximate number of persons assisted by the financial literacy
13 information Web site, steps taken to partner with the financial
14 services community and governmental and nongovernmental
15 stakeholders to improve Californians' financial literacy, a
16 description of the basic financial skills information available on
17 the Controller's Internet Web site and plans to improve that
18 clearinghouse of information, any nonstate funding received for
19 purposes of this initiative, and any additional recommendations
20 to enhance financial literacy in California. This report shall be
21 submitted no later than August 30 of each year.

22 70009. It is the intent of the Legislature that state agencies
23 involved in the Financial Literacy Advisory Committee shall
24 actively support the initiative. State agencies in the executive
25 branch of government, including boards, commissions, and
26 constitutional officers, shall use existing resources for the initiative
27 if they elect to participate.